

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 AID-05 EB-07 IO-10 COME-00

TRSE-00 CEA-01 CIAE-00 FRB-03 INR-07 NSAE-00 CIEP-01

SP-02 STR-04 LAB-04 SIL-01 SAM-01 OMB-01 NSC-05 SS-15

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TO SECSTATE WASHDC 9546

INFO ALL EC CAPTIALS 1058

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PASS AGRICULTURE

E. O. 11652: NA

TAGS: EAGR, EEC

SUBJECT: SURPLUS DISPOSAL MEASURES IN THE DAIRY SECTOR

REF: (A) EC BRUSSELS 06661 (B) EC A-316

(C) EC A-386 (D) EC BRUSSELS 07736

1. BEGIN SUMMARY: A SOURCE IN THE COMMISSION'S DAIRY SECTION EXPECTS EC SUBSIDIES FOR THE USE OF SKIM MILK (LIQUID AND POWDER) IN ANIMAL FEED TO BE MODIFIED. THIS MODIFICATION WILL PROBABLY INVOLVE, IN THE CASE OF LIQUID SKIM MILK, A HIGHER SUBSIDY FOR ADDITIONAL QUANTITIES FED AND, IN THE CASE OF NFDM, A VARIATION OF THE PREMIUM IN ACCORDANCE WITH THE PERCENTAGE OF NFDM IN THE RATION. ACTION ON THE OTHER COMMISSION PROPOSALS MADE IN JULY FOR THE IMPROVEMENT OF THE DAIRY MARKET SITUATION APPEARS LESS LIKELY. SUBMISSION OF COMMISSION PROPOSALS INTRODUCING "CORRESPONSIBILITY" INTO THE DAIRY SECTOR IS NOT EXPECTED TO TAKE PLACE UNTIL AFTER THE COUNCIL'S DISCUSSION OF THE STOCKTAKING. END SUMMARY.

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2. A SOURCE IN THE COMMISSION'S DAIRY SECTION WAS ADKED ABOUT

THE CURRENT STATUS OF THE PACKAGE OF MEASURES PROPOSED BY THE COMMISSION IN JULY 1975 (REF. A). MOST OF THESE PROPOSALS WERE AIMED AT REDUCING EC STOCKS OF NON-FAT DRY MILK POWDER (NFDM) WHICH NOW TOTAL CLOSE TO 1 MILLION M.T. THE COMMISSION'S GOAL IS TO REDUCE NFDM STOCKS TO ABOUT 550,000 TONS ( 450,000 TONS IN INTERVENTION, 100,000 TONS IN PRIVATE STORAGE) BY APRIL 1, 1976--THE SAME LEVEL AS IN APRIL 1975.

3. SEVERAL OF THE PROPOSED MEASURES (INVOLVING A DECREASE IN THE SELLING PRICE USED FOR CONCESSIONAL EXPORTS OF NFDM, AIDS FOR PRIVATE STORAGE, AND THE SUSPENSION OF INWARD PROCESSING ARRANGEMENTS) WERE APPROVED BY THE JULY 21-22 AGRICULTURAL COUNCIL AND HAVE SUBSEQUENTLY BEEN IMPLEMENTED (REF.B). IN ADDITION, EFFECTIVE AUGUST 14, THE COMMISSION RAISED THE MONTHLY ALLOTMENT OF BUTTER WHICH CAN BE GRANTED TO RECIPIENTS OF SOCIAL ASSISTANCE FROM 500 TO 750 GRAMS (AS PROPOSED IN JULY). AS A RESULT OF THIS LATTER MEASURE, IT IS ESTIMATED THAT AN ADDITIONAL 10-12,000 TONS OF BUTTER WILL BE DISPOSED OF IN THE "SOCIAL BUTTER" PROGRAM ( ABOVE THE 30,000 TONS ESTIMATED UNDER THE PREVIOUS ALLOTMENT LEVEL).

4. OF THE 8 REMAINING MEASURES FORMING PART OF THE COMMISSION'S JULY PACKAGE, FIVE WOULD REQUIRE DECISION BY THE COUNCIL WHILE THREE COULD BE EFFECTED BY THE COMMISSION ITSELF. THE THREE PROPOSED MEASURES WITHIN THE COMPETENCE OF THE COMMISSION ARE:

A) AN INCREASE IN THE SUBSIDY (NOW AT 3.39 U.A. /100KG.) FOR THE USE OF LIQUID SKIM MILK FOR ANIMAL FEED. THE HIGHER RATE OF SUBSIDY WOULD APPLY ONLY TO ADDITIONAL QUANTITIES OF LIQUID SKIM MILK FED IN RELATION TO A CERTAIN REFERENCE PERIOD. THIS MEASURE WOULD BE EXPECTED TO RESULT IN A 450,000 M.T. INCREASE IN THE USE OF LIQUID SKIM MILK--EQUIVALENT TO ABOUT 40,000 M.T. OF NFDM. THE TOTAL AMOUNT OF LIQUID SKIM MILK USED FOR ANIMAL FEED IN THE COMMUNITY IN 1975 IS ESTIMATED AT 4 MILLION TONS (WITHOUT THE INCREASED AID). THIS TOTAL HAS BEEN STEADILY DECLINING; IT WAS ESTIMATED AT 4.5 MILLION TONS FOR 1974.

B) MODIFICATION OF THE SUBSIDY GRANTED FOR THE USE OF NFDM IN ANIMAL FEED. THE CURRENT SUBSIDY IS 36.50 U.A./100KG. THE COMMISSION IS CONSIDERING EITHER VARYING THE AMOUNT OF THE AID IN ACCORDANCE WITH THE PERCENTAGE OF NFDM USED IN THE RATION OR MAKING THE AID CONTINGENT UPON UTILIZATION OF A CERTAIN MINIMUM LIMITED OFFICIAL USE

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RATE OF NFDM IN THE RATION. BY MEANS OF SUCH MODIFICATIONS, THE COMMISSION WOULD HOPE TO INCREASE THE SHARE OF NFDM IN THE MILK REPLACEMENT RATION; IT IS ESTIMATED THAT THIS SHARE HAS FALLEN FROM 60 TO 52-54 PERCENT OVER THE PAST YEAR.

C) THE SALE OF PRE-1974 INTERVENTION STOCKS OF NFDM AT REDUCED PRICES FOR EXPORTATION IN THE FORM OF ANIMAL FEEDS. ABOUT 80,000 TONS OF NFDM BOUGHT INTO INTERVENTION BEFORE JANUARY 1, 1974 REMAIN IN STOCK.

5. THE SOURCE FELT THAT AN INCREASE IN THE SUBSIDY FOR THE FEEDING OF LIQUID SKIM MILK MIGHT SOON BE PUT INTO EFFECT. THE COMMISSION WAS FARTHER AWAY FROM A FINAL DECISION WITH RESPECT TO THE MODIFICATION OF THE SUBSIDY FOR NFDM BUT, AFTER FURTHER COMMISSION DISCUSSION, HE ANTICIPATED THAT CHANGES WOULD BE MADE ALONG THE LINES DESCRIBED IN THE PREVIOUS PARAGRAPH--PERHAPS INITIALLY VARYING THE AID IN RELATION TO THE PERCENTAGE OF NFDM IN THE RATION AND LATER, IF THIS MEASURE IS NOT EFFECTIVE, FIXING A MINIMUM INCORPORATION REQUIREMENT FOR THE PAYMENT OF THE SUBSIDY. THE COMMISSION'S ROOM FOR MANEUVER IN THIS AREA IS CIRCUMSCRIBED AS THE COUNCIL HAS IMPOSED A MAXIMUM LIMIT ON THIS SUBSIDY OF 40 U.A./100KG. IF EFFECTIVE, THESE MEASURES WOULD TEND BOTH TO REDUCE THE MARKET FOR MILK REPLACER FEEDS (BY ENCOURAGING GREATER FEEDING OF LIQUID SKIM MILK) AND TO INCREASE THE SHARE OF NFDM USED IN MILK REPLACERS. THUS, THEY COULD HAVE A DETRIMENTAL EFFECT ON U.S. TRADE BY REDUCING THE USE OF SOY FLOUR AND OTHER FEED INGREDIENTS BASED ON U.S. EXPORTS. FEARING GREATER EC INTERFERENCE IN THE MARKET, FEFAC HAS OPPOSED THESE PROPOSED MEASURES (REF. C).

6. CONSIDERATION OF THE EXPORTATION OF PRE-1974 INTERVENTION STOCKS (IN ANIMAL FEED) WAS NOW ON THE BACKBURNER, ACCORDING TO THE SOURCE. HE DID NOT FEEL THAT SUBSTANTIALLY LARGER EXPORT MARKETS COULD BE FOUND; THE EC NOW SEALS ABOUT 20-25,000 TONS OF NFDM IN THE FORM OF ANIMAL FEEDS--ALMOST ALL TO OTHER EUROPEAN COUNTRIES SUCH AS SPAIN AND YUGOSLAVIA. THERE HAS BEEN SOME SUGGESTION THAT THESE STOCKS SHOULD INSTEAD BE USED DOMESTICALLY, POSSIBLY IN PIG AND POULTRY FEEDS WHERE THEY WOULD COMPETE DIRECTLY WITH SOYBEAN MEAL AND OTHER PROTEIN FEEDS. DISPOSAL BY THIS MEANS, HOWEVER, WOULD BE ENORMOUSLY EXPENSIVE; THE PRICE OF NFDM WOULD HAVE TO BE 15 U.A./100 KG OR BELOW (FEFAC SAYS 11 U.A./100 KG) TO COMPETE

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AS COMPARED WITH THE EC SUPPORT PRICE OF 88.70 U.A./M.T.

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7. THE OTHER PROPOSED MEASURES, WHICH WOULD REQUIRE COUNCIL DECISION, ARE:

- A) INCREASED EXPORT AND DOMESTIC USE OF MIXTURES OF NFDN AND WHEAT FLOUR. THE COMMISSION SUGGESTED IN JULY THAT THE POSSIBILITY OF INCREASING EXPORTS (INCLUDING FOOD AID SHIPMENTS) OF SUCH PRODUCTS BE CONSIDERED; MOREOVER, THEY SUGGESTED THAT THE POSSIBILITY OF AUTHORIZING MEMBER STATES TO GRANT A 36.50 U.A./100KG SUBSIDY FOR THE USE OF ADDITIONAL QUANTITIES OF NFDN IN SUCH MIXTURES BE EXAMINED. ACCORDING TO THE SOURCE, THE COMMISSION HAS NOT YET BEEN ABLE TO WORK OUT A FORMAL PROPOSAL IN THIS AREA.
- B) ENCOURAGEMENT OF MILK CONSUMPTION IN SCHOOLS. MEMBER STATES ARE ALREADY AUTHORIZED TO OPERATE SUCH "SCHOOL LUNCH" PROGRAMS BUT ONLY IN THE UNITED KINGDOM AND PARTS OF GERMANY ARE SUCH PROGRAMS IN EFFECT. THE COMMISSION ENVISAGES AN EC CONTRIBUTION TO SUCH PROGRAMS TO ENCOURAGE THEIR EXPANSION.
- C) RESTRICTION OF CASEIN IMPORTS FROM NON-GATT (I.E., EASTERN EUROPEAN) COUNTRIES.
- D) INCREASE NFDN FOOD AID FROM 55,000 TO 70,000M.T.
- E) EXCLUSIVE USE OF BUTTER FAT AND MILK POWDERS IN DAIRY-TYPE PRODUCTS. THIS PROPOSAL HAS BEEN CONSIDERED, AND IGNORED, BY LIMITED OFFICIAL USE

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THE COUNCIL ON NUMEROUS OCCASIONS. IT IS SAID TO REQUIRE FURTHER TECHNICAL DISCUSSION AND WILL PROBABLY NOT COME UNDER SERIOUS EXAMINATION BY THE COUNCIL BEFORE THE END OF THE YEAR (IF AT ALL).

8. IN ADDITION TO THESE TEMPORARY MEASURES, THE COMMISSION IS CONCERNED WITH INTRODUCING A MEASURE OF "PRODUCER RESPONSIBILITY" OR "CORESPONSIBILITY" INTO THE DAIRY SECTOR. OUR

SOURCE DID NOT EXPECT, HOWEVER, THAT THE COMMISSION WOULD PRESENT ITS PROPOSALS FOR "CORESPONSIBILITY" UNTIL AFTER THE COUNCIL'S DISCUSSION OF THE STOCKTAKING REPORT (REF. D) WHICH IS NOW REPORTEDLY SCHEDULED FOR THE OCTOBER 27-28 SESSION. DESPITE THE FACT THAT THE TWO-STAGE DAIRY PRICE SYSTEM RECOMMENDED IN THE STOCKTAKING REPORT HAD NOT BEEN FAVORABLY RECEIVED, HE FELT THAT THIS WOULD FORM AN ELEMENT OF THE COMMISSION'S PROPOSAL. OTHER ELEMENTS MIGHT BE THE POSTPONEMENT OF THE 1976/77 PRICE INCREASES (OR EVEN THE REDUCTION OF DAIRY PRICE LEVELS) AND IMPOSITION OF LEVIES ON PRODUCTS GOING INTO INTERVENTION. THE SOURCE DID NOTE EXPECT SERIOUS DISCUSSION OF CORESPONSIBILITY IN THE DAIRY SECTOR UNTIL THE END OF THE YEAR.

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